

**THE CORPORATION OF THE CITY OF WINDSOR**  
**Executive Committee - Administrative Report**

**MISSION STATEMENT:**

*"Our City is built on relationships – between citizens and their government, businesses and public institutions, city and region – all interconnected, mutually supportive, and focused on the brightest future we can create together."*

<b>LiveLink REPORT #: 17994 AFB/11935</b>	<b>Report Date: October 9, 2015</b>
<b>Author's Name: Sonia Bajaj</b>	<b>Date to Standing Committee: October 26, 2015</b>
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**To: Executive Standing Committee**

**Subject: 2015 Third Quarter Operating Budget Variance Report**

**1. RECOMMENDATION: City Wide:  Ward(s): \_\_\_\_\_**

THAT Council **RECEIVE FOR INFORMATION** the 2015 3<sup>rd</sup> Quarter Operating Budget Variance Report dated October 9, 2015 from the Chief Financial Officer and City Treasurer and;

That the Chief Administrative Officer along with the Chief Financial Officer and City Treasurer **BE DIRECTED** to monitor the 2015 Operating Budget and pro-actively take steps to mitigate any significant variances that may arise and;

THAT due to the significant work load challenges in the Finance Department, City Council **APPROVE** that the Capital Variance Report for the period ending September 30, 2015 normally presented in the late Fall, be deferred to the first quarter of 2016.

**EXECUTIVE SUMMARY:**

N/A

## **2. BACKGROUND:**

Annual Operating Budgets for City departments are set at the beginning of the calendar year based on Council direction, economic trends and local information available at the time. The departments monitor their expenditures and revenues on an ongoing basis and project to the end of the year to ensure that they remain within the approved budget. As with any forecasting, the projections become more accurate as the year unfolds and as more information becomes available.

The City's annual budget includes a \$2.5 million corporate contingency line item to help offset any unforeseen variances that can materialize throughout the year.

In addition to the City's tax levy funded Operating Budget, certain expenditures are funded through specific non tax levy streams such as Legislated Building Permits, On / Off Street Parking Operations, and Sewer Surcharge, as detailed in the discussion section of this report.

## **3. DISCUSSION:**

### Tax Supported Variances

The financial position of the Corporation is directly affected by uncontrollable factors such as weather conditions, unemployment rates, tax appeals, fuel and utility costs, interest rates, settlement of litigation brought against the City, social assistance caseloads, etc. As a result, material fluctuations in the projected variances can occur if any unforeseen event occurs or the event is of an unforeseen magnitude.

Based on information as of August 31, 2015, Administration is projecting an estimated year end surplus of \$2,242,939 after the use of the noted \$2.5 million contingency account and other approved / recommended reserve funding.

Table A on the next page outlines a summary of the 2015 projected year end variances for the City Departments and Agencies, Boards & Commissions, by the 2015 3<sup>rd</sup> quarter projected dollar value from the largest deficit to largest surplus.

**Table A: 2015 Third Quarter Operating Budget Variance by Department**

Department	2014 Year End Surplus / (Deficit)	2015 Annual Net Budget	Q3 - 2015 Projected Surplus / (Deficit)	Variance % of Gross Budget
Fire & Rescue Services	\$ (627,463)	\$ 40,959,074	\$ (1,300,000)	-3.1%
Legal	\$ (1,276,159)	\$ 5,729,036	\$ (650,000)	-3.9%
Transit Windsor	\$ (796,082)	\$ 13,874,952	\$ (500,000)	-1.5%
Recreation & Culture	\$ (613,266)	\$ 9,187,227	\$ (258,000)	-1.2%
Corporate Human Resource Accounts	\$ (607,719)	\$ (13,825,349)	\$ (222,000)	-0.5%
Huron Lodge	\$ 406,718	\$ 7,221,184	\$ (84,000)	-0.4%
Mayor's Office	\$ -	\$ 506,453	\$ -	0.0%
Council Administrative Services	\$ (8,890)	\$ 586,666	\$ -	0.0%
Windsor Public Library	\$ -	\$ 7,636,182	\$ -	0.0%
Human Resources	\$ 102,628	\$ 4,087,607	\$ 43,300	1.0%
Information Technology	\$ 37,242	\$ 5,941,062	\$ 71,500	1.0%
Council Services	\$ 324,600	\$ 6,459,565	\$ 83,600	0.9%
CAO's Office	\$ 252,308	\$ 1,324,528	\$ 98,000	7.4%
Corporate Financial Accounts	\$ 2,045,686	\$ (287,483,761)	\$ 193,300	0.1%
Engineering	\$ 34,328	\$ 15,952,892	\$ 227,700	0.4%
Planning & Building	\$ 522,077	\$ 3,460,519	\$ 257,000	3.3%
Public Works	\$ (3,137,425)	\$ 26,304,727	\$ 285,500	0.6%
Housing & Children's Services	\$ 357,900	\$ 21,477,255	\$ 287,900	0.3%
Employment & Social Services	\$ 1,405,517	\$ 12,529,848	\$ 316,000	0.3%
Parks	\$ (232,809)	\$ 14,673,011	\$ 325,000	2.0%
Finance	\$ 216,930	\$ 6,449,388	\$ 330,000	3.6%
<b>Total City Departments</b>	<b>\$ (1,593,879)</b>	<b>\$ (96,947,934)</b>	<b>\$ (495,200)</b>	<b>-0.1%</b>
<b>Agencies, Boards &amp; Commissions</b>				
Windsor Police Services	\$ (810,374)	\$ 77,501,516	\$ (350,000)	-0.4%
Agency Grants	\$ (671,144)	\$ 16,890,498	\$ 62,000	0.4%
Committees of Council	\$ 17,003	\$ 55,920	\$ -	0.0%
<b>Total Agencies, Boards &amp; Commissions</b>	<b>\$ (1,464,515)</b>	<b>\$ 94,447,934</b>	<b>\$ (288,000)</b>	<b>0.0%</b>
<b>Subtotal</b>	<b>\$ (3,058,394)</b>	<b>\$ (94,447,934)</b>	<b>\$ (783,200)</b>	<b>-0.1%</b>
<b>Total Corporation Prior to Additional Council-Approved Funding</b>	<b>\$ (3,058,394)</b>	<b>\$ (2,500,000)</b>	<b>\$ (783,200)</b>	<b>-0.1%</b>
BSR for Winter Control (CR81/2014 & M7/2014)	\$ 1,250,000			
Council-Approved Funding for Fire (CR55/2015)	\$ -	\$ -	\$ 435,046	
Council-Approved Funding for Canderel (M353/2015)			\$ 91,093	
Corporate Contingency	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	100.0%
<b>2015 Net Operating Budget Surplus</b>	<b>\$ 691,606</b>	<b>\$ -</b>	<b>\$ 2,242,939</b>	<b>0.3%</b>

Administration is working diligently to reduce the identified projected departmental variances by incorporating appropriate mitigating measures in the departments and reporting to Council on a

quarterly basis. *Appendix A* identifies each department's variance, a detailed description of the variance and mitigating measures.

The projected year end variance is broken down by major account category and presented below in Table B.

**Table B: 2015 Third Quarter Operating Budget Variance by Category**

Category	Net Favourable (Unfavourable) Variance
<b>REVENUE:</b>	
User Fees, Permits & Charges	\$ (884,700)
Investment Income & Dividends	\$ (670,000)
Taxes - Municipal	\$ (220,000)
Taxes - Education	\$ -
Transfers from Other Funds	\$ 62,400
Recovery of Expenditures	\$ 76,500
Other Miscellaneous Revenue	\$ 142,500
Grants & Subsidies	\$ 549,700
<b>SUBTOTAL - REVENUE</b>	<b>\$ (943,600)</b>
<b>EXPENSE:</b>	
Purchased Services	\$ (1,089,200)
Operating & Maintenance Supplies	\$ (53,000)
Minor Capital	\$ (50,000)
Financial Expenses	\$ (5,100)
Transfers to Education Entities	\$ -
Transfers to Reserves & Capital Funds	\$ -
Transfer for Social Services	\$ -
Transfers to External Agencies	\$ 62,000
Utilities, Insurance & Taxes	\$ 120,000
Other Miscellaneous Expenditures	\$ 164,100
Salaries & Benefits	\$ 1,011,600
<b>SUBTOTAL - EXPENSES</b>	<b>\$ 160,400</b>
<b>Net Total</b>	<b>\$ (783,200)</b>
Council Approved Funding - Fire (CR55/2015)	\$ 435,046
Council Approved Funding - Canderel (M353/2015)	\$ 91,093
Corporate Contingency	\$ 2,500,000
<b>2015 Projected Year End Surplus</b>	<b>\$ 2,242,939</b>

### ***Revenue Variance***

The User Fees, Permits and Charges category represents the largest revenue deficit primarily due to sales at Transit Windsor and programming at various City facilities. The offset to this deficit are one time surpluses in permit activity in the Engineering Department and subsidy and grant surpluses in Housing Services, Huron Lodge and at the Windsor Essex County Housing Corporation.

### ***Expenditure Variance***

The largest expenditure deficit is consistent with the 2<sup>nd</sup> quarter operating variance report, the Purchased Services category and more specifically winter control, the timing of the implementation of the LED streetlight conversion project, labour arbitration and legal services costs. The Salaries and Benefits category surpluses equalize this deficit with salary gapping and corporate provisions designed to offset employee related costs in the various departments.

### **Non-Tax Levy Variances**

#### ***Building Permit Operations***

<b>Budget Draw on Permit Reserve</b>	<b>Projected Draw at Year End</b>	<b>Projected Year End Surplus</b>
\$ 413,000	\$ 49,000	\$ 364,000

Construction statistics as of September 30, 2015 (1,984 permits) are above that of 2014 (1,765 permits) for the same period. The permit counts are largely concentrated in renovations and new housing starts. These types of permits generate lower permit revenues compared to permits for new construction of the larger industrial, commercial and institutional (ICI) type projects. The (ICI) categories traditionally represent a large portion of the permit based revenue for the Corporation. So far in 2015, residential and commercial projects are significantly higher in quantity and total dollar value than for the same period in 2014. Educational facilities such as local school boards and the University and the College also saw an increase in the value of new construction compared to 2014. Collectively, permit revenue is on track to exceed budget by approximately \$364,000. This would result in a similar reduced draw on the Reserve. Administration believes that the permit volume trends indicate that the local economy has been rebounding. The development charges fees increase of June 1, 2015 only played a minor role in the volume of permit applications received in the first half of this year.

Mitigating efforts are continually being implemented by the Building Department to help reduce and control any draw against the Building Permit Fee Reserve each year. Those efforts include gapping and staffing reductions where feasible, frugal management of all controllable operating costs, seeking increased efficiencies and implementing new fees and cost recovery for services rendered.

The building permit reserve deficit is \$9.7 million, offset by the contra reserve account balance of \$9.6 million as of September 30, 2015.

***On/Off Street Parking Operations***

<b>2015 Budgeted Transfer to Reserve</b>	<b>2015 Projected Transfer to Reserve</b>	<b>2015 Projected Transfer Reduction (Year-End Deficit)</b>
\$ 762,600	\$ 539,400	\$ (223,200)

Administration is projecting an overall reduction to the reserve transfer for 2015 of (\$223,200) related to a one-time, retroactive HST adjustment of (\$83,500) and a revenue shortfall of (\$139,700) related to 2015 pricing adjustments for hourly parking and group discount rates. Due to the By-Law changes required, the revenue adjustments for the hourly parking and group discount rates became effective July of 2015, resulting in only a partial year revenue increase related to both fees.

The balance in the On/Off Street Parking Reserve Fund as of August 31, 2015 is (\$1,894,603).

***Sewer Surcharge Operating Reserve Fund***

Pollution Control is expecting to end the year with a \$943,000 surplus. This is largely due to a projected surplus of \$580,000 at the Lou Romano Water Reclamation Plant, along with smaller surpluses of \$149,000 for the Pumping Stations, \$139,000 for the Little River Pollution Control Plant, and \$120,000 in Electrical. These surpluses are partially offset by a projected deficit of (\$45,000) in Landfill Sites.

The largest factor in the projected \$580,000 surplus at the Lou Romano Water Reclamation Plant is Sludge Expenses, which are expected to be \$285,000 lower than anticipated. Additionally, labour / benefit costs are expected to be \$140,000 better than budgeted, due to several vacancies; some of which remain unfilled. Chemical expenses are also projected to contribute an additional \$100,000 in surplus dollars. Smaller surpluses in Infrastructure Repairs of \$80,000, Equipment Maintenance of \$25,000, and Plant Equipment Repairs of \$10,000 are also anticipated. Additionally, there is a \$60,000 surplus in other professional expenses. Partially offsetting this is a (\$120,000) deficit in security costs at the facility.

The (\$45,000) deficit in Landfill Sites is entirely due to work that must be completed at the Malden Landfill, and is required by the Ministry of the Environment (MOE). Through the City's MOE-mandated monitoring efforts, gases were detected in a well on the site, which is in close proximity to an adjacent off-site facility. The MOE required that the City investigate the source of these gases and develop a plan to prevent migration of gases from the site. The projected deficit is based on consulting fees already spent and anticipated to be incurred for the balance of the year. Ongoing discussions with the MOE, and the inclement winter weather, will result in

further work being deferred until 2016. Therefore, the previously projected deficit as a result of this work in the previous variance report will not materialize for 2015.

Further, Public Works Operations is projecting a gapping surplus of \$30,000 for wages and fringes related to a vacant position resulting from a retirement.

Based on revenues received as at August 31, sewer surcharge revenue is projected to be on budget.

Therefore, the total surplus projected for the Sewer Surcharge Operating Reserve Fund is \$973,000 at year end.

#### Capital Variance Report

Reporting to Council on the status of capital projects is done on a semi-annual basis (i.e. March 31 and September 30) with the last report approved by Council on June 29 for March 31, 2015. There were 351 projects open at that time that were trending toward a net surplus position. Normally the large majority of capital projects are completed at or below budgeted costs. In those cases where a significant deficit is experienced, a detailed report of the reasons is presented to Council through specific dedicated reports. Due to the priority placed on implementing the Chart field Redesign project, an update on the status of all capital projects as of September 30, 2015 is recommended to be deferred to the first quarter of 2016. Administration continues to monitor all capital variances on a monthly basis and should any project have a significant budget impact, a separate report will be brought forward to Council. A copy of the previous report can be provided to City Council upon request.

#### **4. RISK ANALYSIS:**

There are a number of potential risks that can have a significant impact on the yearend financial results:

1. The Net Tax Additions / Reductions account is extremely difficult to project with certainty. There are still some significant appeals in progress and any variances in this account will vary dramatically based on the outcomes and timing of the settlements.
2. Current macro and micro economic conditions such as changes to local unemployment rates, volatility of energy costs, commodity prices and interest rates as well as supply and demand for products and services.
3. Seasonal variability with respect to revenues (e.g. Recreation program fees) and expenses (e.g. winter control)
4. Potential increase in staffing costs due to factors such as sick call replacement, modified duties (particularly in mandated or 24 / 7 operational areas), WSIB, joint job evaluation

or other arbitration decisions, health benefit usage and such other. Some of these costs may be covered by corporate provisions / reserves.

5. Potential increase to unavoidable expenditures such as mandated repairs and maintenance and allied purchase of materials and supplies, legal expenses, streetlight maintenance, etc.
6. The significant use of estimates, historical knowledge and judgment in developing budgets and projecting actual expenses for the year implies that actual year end revenues and expenditures may differ significantly from quarterly projections. One way to mitigate this risk and help to offset any unexpected or one-time variances is by way of the annual \$2.5 million corporate contingency account.

## **5. FINANCIAL MATTERS:**

Refer to *Appendix A* for detailed descriptions to support the departmental projected year end variances along with mitigating measures.

*Appendix B* of this report includes a list of relevant operational and economic statistics (extracted from various sources) as background information and is depicted graphically by quarter, by year, for ease of reference and comparison purposes.

## **6. CONSULTATIONS:**

All City Departments provided comments to augment the analysis performed by the Finance Department.

## **7. CONCLUSION:**

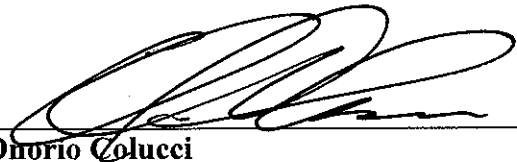
Administration is projecting a potential estimated year end surplus of \$2,242,939 after the use of the noted \$2.5 million corporate contingency account and other Council approved reserve funding.

As indicated throughout this report, the third quarter operating variance projection is subject to refinements as the fiscal year progresses. Mitigating measures and steps have and will be implemented where possible in order to mitigate negative budget risks.

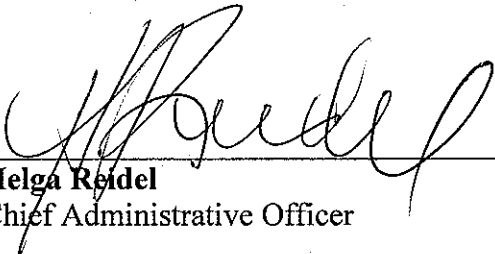




**Sonia Bajaj**  
Financial Planning Administrator



**Onorio Colucci**  
Chief Financial Officer & City Treasurer  
Corporate Leader Finance and Technology



**Helga Reidel**  
Chief Administrative Officer

**APPENDICES:**

**Appendix A – Third Quarter Operating Budget Variance Report**

**Appendix B – Operational and Economic Statistics**

**DEPARTMENTS/OTHERS CONSULTED:**

**Name:**

**Phone #: 519            ext.**

**NOTIFICATION :**

Name	Address	Email Address	Telephone	FAX